

Labor market will shape U.S. economy in years to come

Editor's note: This essay is part of a series being published to help commemorate the Monthly Labor Review's centennial (July 1915–July 2015). The essays—written by eminent authorities and distinguished experts in a broad range of fields—cover a variety of topics pertinent to the Review and the work of the Bureau of Labor Statistics. Each essay is unique and comprises the words and opinion of the author. We've found these essays to be enlightening and inspirational. We hope you do as well.

In its 100 years in publication, the *Monthly Labor Review* has remained relevant and insightful through many labor markets. This includes the boom times of the 1920s, 1960s, and 1990s, and the dark times of the 1930s, 1970s, and the past decade. It includes the World Wars, the Korean War, Vietnam, Iraq, and Afghanistan. It includes the surge in female labor force participation in the second half of the 20th century, and the rapidly shifting fortunes of industries, occupations, and regions of the country.

The next 25 years will surely be no different. There will be good and bad times, wars, and large demographic changes. Some industries, occupations, and regions will rise in importance, and others will decline. Through it all, the *Monthly Labor Review* will continue to provide the information vital to understanding every development.

Among the most important coming changes to the labor market, and arguably among the most certain, is that the nonwhite population will become the majority. Twenty-five years from now, rapidly growing Latino, Black, Asian, and other minority groups will together account for more than half the population.

The economy's success thus critically depends on raising the educational and skill levels of these groups so that they can fill the jobs of the future. This poses significant challenges, as many are from lower income households with fewer educational opportunities. Our property tax system does a poor job financing K-12 education in many poor communities, and the current strategy of using student loans to finance the higher education of these financially pressed households is failing.



Mark M. Zandi

Mark M. Zandi is chief economist of Moody's Analytics, where he directs economic research.

Heightening the importance of raising the skill levels of minority groups is the prospect that labor will be in perennial short supply over the next quarter-century. This is in stark contrast to the past quarter-century, when there was more or less a surfeit of labor. Unemployment was generally higher than that consistent with full employment, and not surprisingly, wage growth and the share of national income going to labor declined.

Behind this dismal performance is the concerted effort by the Federal Reserve to wring out inflation, which was the economy's overwhelming problem a quarter-century ago. The Fed managed interest rates so that the economy more often than not operated below full employment, weighing on wages.

The overriding problem today is disinflation, and the specter of deflation hangs over some parts of the world. Global central banks, including the Fed, are working hard to support stronger job growth and reduce unemployment in order to lift wage growth and inflation. The Fed will likely manage interest rates so that the economy generally operates above full employment.

Adding to the coming tight labor market is the inexorable aging of the large baby boom generation into retirement. Labor force participation rates are set to steadily decline over the next quarter-century as the boomers leave the workforce, and labor force growth will come to a virtual standstill at times. Businesses will need to raise wages more aggressively to attract workers on the fringes of the labor force. The labor share of income should rise, and the long-running skewing of income distribution may even unwind somewhat.

Given the tight labor market and the growing minority share of the population, the politics around immigration reform are likely to shift. A path to citizenship for the undocumented seems likely, with more legal immigrants allowed into the country, particularly the highly skilled and educated. The U.S. labor force will grow increasingly more diverse, not just in global gateway cities, but in farther-flung places across the nation.

American businesses will also look to cultivate a more global workforce. They will be selling more of their goods and services more broadly across the world, and they will want workers in those places. They will also tap the talents of those workers and forge truly global workforces, bringing the world closer together economically, politically, and socially.

Businesses will also need to invest more aggressively in new technologies. Without that investment, productivity growth will languish as it has in recent years, and the tight labor market will translate into slower overall economic growth. Middle and lower income households will struggle with this the most, and the nation's long-term fiscal challenges will become even more daunting.

Faster innovation and productivity growth will pose other issues for the labor market. High-skilled workers will be enabled by the new technologies, and low-skilled workers will be relatively untouched, as their tasks are more idiosyncratic and thus less susceptible to technology's effects. However, many middle-skilled workers are vulnerable, and unless they can upgrade their skills, new technologies will push them down the income ladder.

The U.S.'s comparative economic advantage is embodied in its workers. Our economic success depends on our ability to attract the best and brightest from across the globe and to empower all those who are here to become the best they can be. This won't be easy, but the *Monthly Labor Review* will be there to guide us.

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